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SECURITY INFORMATION

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BRIEFING NOTES FOR THE DCI

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Agenda
No.

- 13. COCOM Shipping Controls. ✓
- 17. Japanese Trade Prospects ✓
- 21. Position of the UK on East-West Trade ✓
" " " " " " " : Export Controls ✓

Enclosures:

State Department Policy Paper (Draft): "U.S. Policy on
Japanese Export Controls"
Annotated Bibliography on East-West Trade

Trade with the Soviet Bloc; Current Problems and Policies
(ECA Report No. 8, December 11, 1951)

Public Law 213 (Battle Act)

NSC 104/2

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13. COCOM Shipping Controls **SECURITY INFORMATION**

Under COCOM agreements 1/, the following items (List I) are embargoed:

Floating docks, ice-breakers of 2,000 HP or over, tankers, tank barges, whaling factories, and warships (regardless of current condition) and warship hulls. Controls over quantities exported apply to the following: Dredges; ice-breakers under 2,000 HP; merchant vessels of 7,000 GRT or 12 knots speed; fishing vessels over 500 GRT, or 750 feet, or 110 feet if powered with diesel engine, or with apparatus for generating electric power over 20 KW; merchant vessels not elsewhere specified; other vessels over 40 feet in length or over 50 shaft HP.

At the COCOM meeting of shipping experts, held in Paris from 27 November to 5 December 1961, agreement was reached that List II vessels should be exported to the Soviet Bloc only in order to obtain essential imports (quid pro quo treatment). A gentlemen's agreement provides that countries will not export to the Soviet Bloc the merchant vessels of 7000 GRT or 12 knots

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speed and fishing vessels specified in List II without consulting COCOM first.

All other List II vessels are subject to optional pre-consultation, particularly when they have special military characteristics. Fishing vessels may be considered later for upgrading to List I.

COCOM controls on ship repairs and alterations are as follows:

Installation or replacement of List I items or munitions is prohibited; List II installations are charged to specific List II quotas, agreed upon for each

item. Transformations of vessels into List I types or special structural

changes to increase the military usefulness of vessels are prohibited. Agree-

ment has also been reached that COCOM members should avoid, to the maximum

extent possible, the fitting of specific items into ships under construction

for the Soviet Bloc (certain types of diesel engines, gyro-compressors,

marine radar, condenser tubes, bearings for propeller shafts). The repair

and installation controls were proposed by the UK delegation to COCOM in

the summer of 1951 and received full US support at the recent COCOM meeting

of shipping experts where agreement was reached. Ships' supplies and stores

are not under control at present but tentatively scheduled for later

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At the above mentioned meeting of shipping experts, there was general agreement on the desirability of bare-boat charter controls 2/ but Canada and several other delegations found domestic laws now available inadequate to implement such controls forthwith. Long-term chartering 3/ is not controlled, although European COCOM members have claimed that long-term chartering of List I vessels is not a regular practice. No controls apply to the carriage of unauthorized shipments of controlled goods to the Soviet Bloc. The specific charter and carriage problems with respect to the trade with Communist China are currently being discussed in COCOM.

2/ Under bareboat or demise charter, the owner submits the "bare ship" to virtually complete control by the charterer for an agreed period. The charterer appoints the master and chief engineer, with the owner's approval, maintains, bunkers, and insures the vessel. Bareboat chartering does not occur frequently in normal times; it is often indicative of unusual increases in shipbuilding costs or unforeseen requirements for additional tonnage.

3/ Under long-term or time charter, a vessel is taken for a certain calendar period or a specified number of voyages. The owner continues to furnish the master and crew, ship's stores, and insures the vessel unless otherwise agreed upon in the charter. The charterer provides for maintenance of the vessel and bunkering.

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17.

Japanese Trade Prospects

Attached is a draft paper prepared in the State Department on "U.S. Policy on Japanese Export Controls." This paper is now being revised in the light of interagency discussion. Particular objection was raised to the last sentence of the Conclusions on page 9.

Japan, as an industrial nation and by its location and past economic relations, is of particular importance to China and to China's prospects for development. China requires industrial imports, which Japan can furnish. Much of the existing industrial plant in China is of Japanese origin, and therefore requirements for maintenance and expansion of existing plants would best be secured from Japan.

During 1950 Japan's exports to China were less than one-tenth of China's total imports both in annual trade and in the expanded level of trade in the last quarter of that year. However, China secured from Japan nearly one-fifth of her imports of the types of industrial products (iron and steel, electrical machinery, etc.) which Japan normally export to China. These exports were important in rehabilitation and maintenance of industrial plants and promoted an increase in industrial output for the disposal of the Chinese Communists.

Japan's exports to China in 1951 were small. Textiles were exported but not in great quantity; the export of bicycles was probably of greater importance since they are a major means of transport in China, in demand by local government administrations and by the military for liaison purposes. The Chinese Communists are likely to permit small imports of consumer's manufactures (in spite of present strong controls over foreign trade), such as bicycles — but it is not probable that Japan can significantly expand its exports to China on the basis of these commodities alone.

The United States maintains an export embargo over trade with Communist China. Japan's controls established by SCAP are almost equal to those of the United States in severity and prevent the export to China of all but a few products such as textiles, bicycles, sewing machines and a few other consumer goods.

The policy of the United States is to seek to obtain effective export controls in Japan which will contribute to the mutual security interests of the free world.

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21.

Position of the UK on East-West Trade

The position of the U.K. on East-West trade is the now familiar dilemma of liberalizing trade in the interest of economic welfare or restricting it in the interest of strategic welfare.

U.S. policy in legislation (the Battle Act) and in NSC determination (104/2) has emphasized security. The British emphasis has been on recovery, on the necessity of conserving dollar exchange, of increasing exports, of importing grain and timber from the East, and on the avoidance of provocative measures towards the Soviets.

The U.K. would resolve the dilemma by less stringent controls and maintaining sufficient exports to the Soviet bloc to pay for imports. The U.S. would resolve it by more stringent controls and decreasing reliance on imports from the East. Recent studies by the ECA conclude that, "In the event of such a reduction or cessation the Western World would be confronted with a threefold problem: (1) procurement elsewhere of supplies thus far obtained from the Eastern Bloc, (2) finding alternative markets for Western exports thus far sent to the East, and (3) meeting the costs inherent in these trade shifts."

As to the procurement of supplies thus far obtained from the Eastern Bloc, the study concludes, "...the short-run physical replaceability of the main commodities supplied by the Eastern Bloc is not likely to present a serious problem except possibly in the case of coarse grains and lumber. Supplies presently available in North America are adequate to provide the required coal and bread grains, though additional shipping would have to be broken out of the reserve fleet to move them. If U.S. consumption can be restricted somewhat, Western Europe's lumber imports from the Soviet Bloc could also be replaced without undue difficulty..."

"For the longer run, the replacement problem should be even less difficult. Western European coal production could be increased substantially, though perhaps not sufficiently to obviate the need for all imports; requirements for imported bread grains could be met from North America and those for coarse grains by a relatively small expansion of Argentine production and exports. To meet overall lumber requirements more use will have to be made of tropical hardwoods."

As to alternative markets for Western exports the report states, "...exports to the Bloc generally represent but a small fraction of domestic production and adjustments to the disappearance of Eastern Bloc markets are on the whole not expected to be too difficult to make."

As to meeting the costs inherent in these trade shifts the report states that the net additional dollar expenditures that would result from the first year of trade cessation between Western Europe and the Soviet Bloc would range from \$419 million to \$537 million.

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21. Position of the UK on East-West Trade: Export Controls

General statements of export control policy and objectives made by the US and the UK appear to be in close agreement.* Nevertheless, there exist basic differences in their respective positions as regards such controls.

In actual practice the UK has cooperated with the US in an effort to deny to the Soviet bloc items which have been demonstrated to have military application or which are essential to industrial operations that are in direct support of the military (e.g. uranium mining). There are important differences, however, in the US and UK positions with regard to export controls over items that are less directly related to military end-uses. The UK is reluctant to cut off trade completely with any country, even Communist China. Moreover, it has been reluctant to extend export controls to items which potentially have wide civilian use.

The British have been opposed to the use of export controls to deprive the Soviet bloc of certain high order capital goods (including construction, mining, and transportation equipment) and raw materials (including rubber and tin) which are necessary to the basic economy of the bloc. Some of these commodities have direct military application, whereas others of this type contribute directly to the production of military end-use items. Western trade with the Soviet bloc in such items facilitates the reallocation of Soviet bloc resources and production facilities in such a way as to make possible either a higher level of output of military goods or the maintenance of the previous level of output of military goods along with the expansion of the basic industrial capacity. In contrast, the US licensing practice to deny such types of materials and equipment to the Soviet bloc.

* Similarly, from a comparison of the number of items on the International List I with the number on US Lists I and I-A, it would appear that there is more than 90 percent conformity between the US and UK primary strategic lists. Such a conclusion, however, is misleading for the reason that the comparison is based upon list criteria instead of licensing practices. In addition to items on US Lists I and I-A, the US practice is to deny to the Soviet bloc all items which appear on US Lists II and II-B; whereas, the items on these latter lists are subject either to no restrictions or to nominal quantitative controls by Western European countries, including the UK. Items embargoed by the US but not by Western European countries include rubber, with, for example, medium-size alloy steel bearings, and various types of construction, mining and railroad equipment.

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